



**PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY**

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**Statement for the Record of  
John Janney, General Manager  
Public Utility District No. 1 of Chelan County, Washington  
United States House of Representatives  
Committee on Ways and Means  
Hearing on Tax Reform and Tax Provisions Affecting State and Local Governments  
March 28, 2013**

Public Utility District No. 1 of Chelan County (Chelan PUD) appreciates this opportunity to provide a written statement for the record on the importance of tax exempt financing to public power. As a municipal corporation, Chelan PUD utilizes municipal bonds to finance our generation and infrastructure projects. A restriction on tax exempt bonds would be felt in terms of higher financing costs by us, and by extension, our public power customers.

In 2012, President Obama's budget proposal would have capped the deductibility of municipal bond interest at 28%. The proposal also would have taken the unprecedented approach of applying the tax retroactively to existing bonds. Subsequently, the status of tax exempt municipal bonds was reportedly at risk during "fiscal cliff" negotiations, and is now expected to be part of the discussions surrounding comprehensive tax reform.

As a public power utility, Chelan PUD cannot issue stock. Tax-exempt financing is an essential tool in financing the capital-intensive nature of our electric utility services. We are concerned that imposing tax on the interest of municipal bonds will result in investors demanding higher interest rates on municipal bond issuances in order to compensate for lost benefits and uncertain tax treatment. This would increase the cost of financing our capital intensive electric infrastructure. Likewise, it would increase the costs of our investments in environmental enhancement that support our continued ability to generate electricity from hydropower.

The mission of not-for-profit public power utilities is to provide safe, affordable and reliable electricity to our customers. As hydroelectric project owners, we also invest in environmental enhancements and fish facilities associated with our generation projects. We have relied on tax exempt municipal bonds as our primary financing tool for decades; it remains a critical financial tool for the future as we continue to invest in public power infrastructure and environmental obligations. Examples of fairly recent bond issues include:

Project/Year	Yield	Amount Financed
Upgrades to the Lake Chelan Hydroelectric Project, including plant modernization and fish-related facilities (2009)	3.00%	\$6.54 million
Rocky Reach System Hydroelectric Project environmental enhancements (2009)	4.66%	\$15.9 million
Rock Island System Hydroelectric Project environmental enhancements (2009)	4.62%	\$14 million

To offer a broader overview, Chelan PUD had \$631 million of tax-exempt bonds in its debt portfolio at the end of 2012. In the current market, there is a 70 – 75 (or .70% to .75%) basis point differential between taxable and tax exempt rates using current 30 year spreads. Assuming Chelan PUD did not have the benefit of tax exempt financing, and the \$631 million of tax-exempt debt had been financed at current taxable rates, the interest rate differential would equate to about \$4.4 million – \$4.7 million per year in additional interest expense - all other factors being equal. This would equate to an estimated 4.3% - 4.6% rate increase to our retail customers. In this hypothetical example, we used current interest rate spreads. Historically spreads have been wider, so this is likely a conservative figure.

It is important to recognize that interest on municipal bonds is exempt from federal tax and has been for a century. Similarly, interest on federal bonds is exempt from state and local tax. Congress should preserve this intergovernmental sovereignty and avoid changes that would 1) increase costs to local governments in an attempt to raise federal revenue or 2) result in a loss of local control over financing decisions.

As Congress contemplates comprehensive tax reform, we hope that the Ways and Means Committee will recognize the importance of tax exempt financing to electric utility infrastructure and environmental projects. We would be happy to provide additional information at any time.

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